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DEPARTMENT FOR AF/E AND EEB/TPP/ABT/ATP JANET SPECK
USAID/DCHA/FFP FOR J.BORNS

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SUBJECT: RESPONSE: IMPACT OF RISING FOOD/COMMODITY PRICES/DJIBOUTI

REF: STATE 39410

11. (U) SUMMARY. Djibouti imports virtually all of its food. It has long grappled with chronic drought and food insecurity, and is fighting extreme poverty rates of over 40 percent. In this context, recent rising food and commodity prices have had a catastrophic impact. The GODJ has developed a national food security strategy with USAID support, and has taken action to control rampant inflation, including setting allowable profit margins for several basic commodities. However, with no domestic food production to speak of and few resources at its disposal, the GODJ has been unable to answer the needs of its people, many of whom have already reduced their caloric intake below sustainable nutritional levels. High refugee flows from neighboring Somalia further exacerbate the problem of local food needs. Faced with global acute malnutrition rates of over 28.6 percent, and worried that high prices may lead to food riots, the GODJ has turned to the USG with an urgent appeal for emergency food aid. ForMin called in Charge on April 28 and called Ambassador on April 29 to press for immediate USG food assistance, stressing both the urgency and depth of Djibouti's need, and the inadequate response from other donors to date. END SUMMARY.

DEMAND AND SUPPLY:
AT THE MERCY OF INTERNATIONAL MARKETS

12. (U) Djibouti is almost entirely dependent on imported food. While the GODJ and several private investors have recently encouraged the development of small scale agricultural projects --including poultry farms, greenhouse vegetable cultivation, and date plantations--barely 0.04 percent of Djibouti's land is arable. All of the most basic staples of the Djiboutian diet-- such as flour, pasta, rice, powdered and condensed milk, cooking oil, and sugar--are imported. With this near total dependence on imported foodstuffs, Djiboutian consumers have quickly and painfully felt the impact both of rising world commodity prices, and of the rising fuel costs of shipping these goods to Djibouti.

FEWS NET DATA: ALARMING FOOD INSECURITY

13. (U) Prices for basic foodstuffs have skyrocketed over the last year. According to the Djibouti office of the USAID-supported Famine Early Warning Systems Network (FEWS NET), staple food prices are now 36 percent above the five-year average. In the past month, significant price increases have hit staples like cooking oil (9 percent increase) and beans (21 percent increase). Cooking oil is currently a staggering 101 percent above the five-year average. The price of milk powder--an important food source for weaning children--is now 43 percent above the five-year average. The price of the kerosene most households use to cook their food is 151 percent above the five-year average. Kerosene and cooking oil alone are now absorbing 36 percent of staple food costs.

¶4. (U) Poor urban households can currently afford to satisfy only 66 percent of their minimum daily food requirements; and household food deficits are approaching 34 per cent. With continuous increases in staple food prices over the last twelve months severely limiting their purchasing power, poor urban households are now facing increasing food insecurity and malnutrition, as well as decreasing ability to assist relatives living in rural areas of the country. The most vulnerable groups--women and children--are especially impacted by poor food access and resulting high malnutrition rates. A recent rapid assessment mission conducted by UNICEF, the World Food Program (WFP) and the GODJ indicated a global acute malnutrition rate of over 28.6 percent, and a severe acute malnutrition rate of over 9 percent. Acute malnutrition is currently impacting 25,000 Djiboutian children under the age of five.

¶5. (U) With the total expenditure basket approaching DJF 27,000 (USD 153), low income households are cutting back on caloric intake. Since the basket is now running 30 percent over the five-year average, middle income households are also feeling extreme economic pressure, and are less able to provide assistance to relatives in rural areas.

ECONOMIC IMPACT: INFLATION

¶6. (U) At the end of their recent visit to Djibouti, the IMF noted that inflation had risen from 3.5 percent in 2006 to 8.1 percent in ¶2007. FEWS NET estimates that over 40 percent of the urban population and 100 percent of the rural population of Djibouti are especially vulnerable to food insecurity due to rising food prices. Effectively, half of Djibouti's citizens are at risk for serious

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food insecurity in the face of rising prices. Partly because of concerns that rising food prices are driving general inflation, the GODJ has continued to maintain a lower level of taxes--reduced in 2004 from 20 percent to 8 percent--on all staple foods.

ENVIRONMENTAL IMPACT: RETURN TO WOOD FUEL

¶7. (U) Rising prices for kerosene--the main fuel for cooking food in Djibouti--have led some families either to reduce the number of times a day they cook food, or to stop cooking food at home entirely. However, many households have also reverted to wood or charcoal for cooking fuel. According to FEWS NET, pastoralists have also been intensifying collection and sale of firewood to replace lower income and food sources from animal production. This growing demand for wood and charcoal poses a significant risk for Djibouti's already sparse vegetation, and could exacerbate desertification.

GODJ POLICY RESPONSE: COMBAT "SPECULATION"

¶8. (SBU) In response to widespread public concern over rising food prices, the GODJ has acted to control "speculative practices" by food sellers. In January, the GODJ created a special brigade to ensure that merchants were abiding by the allowable profit margin ceilings set by the government for milk, flour, rice, pasta, and cooking oil. The brigade--composed of representatives from the police, the Ministry of Commerce, and customs and tax authorities--does not impose true price controls, but rather controls on the allowable profit margin for specified goods. As base prices have continued to rise, this control over profit margins has largely failed to stabilize actual prices. As rising energy costs combine with rising food costs to take an additional toll on household budgets, the GODJ is also currently directly subsidizing the purchase of petroleum products.

¶9. (U) To reduce Djibouti's near-total dependence on imported food, the GODJ and private investors have launched several initiatives to

catalyze domestic agricultural production, including a greenhouse project in the village of Arta. A privately-financed poultry-farming scheme has more than halved the price of chicken. Given Djibouti's natural lack of suitable agricultural land, the GODJ has also turned to its neighbors for help in producing food. Djibouti has harvested 1,600 metric tons of sorghum from land in Sudan ceded to the GODJ for that purpose. Ethiopia has continued to reinforce its cereal export ban, leading Djiboutian wholesalers to turn to Somaliland for sorghum imports. Nevertheless, the GODJ is also currently negotiating with the Ethiopian government to cede 5000 hectares in the Bale area (in the Somali and Oromia regional states) to plant cereals for Djiboutian consumption, including wheat intended to subsidize local bakers.

¶10. (U) As income gaps widen and the poorest households are disproportionately impacted by rising food prices, the GODJ has moved to reinforce its National Initiative for Social Development (INDS). When he named his new cabinet at the end of March, President Guelleh created the new position of Secretary of State in Charge of National Solidarity, who is tasked with coordinating interdepartmental efforts to implement the INDS.

¶11. (U) The GODJ's responses to rising food prices have all been in line with the food security strategy recently developed by the GODJ in collaboration with financing and technical assistance from USAID.

¶12. (U) Regional USAID Food for Peace experts and nutritionists from AID/W assessed the drought and food security situation in February 2008 and recommended food aid worth USD1 million to support the GODJ, with a second assessment to follow in early June 2008. With a very weak pipeline, World Food Program (WFP) Djibouti needs food to distribute to over 80,000 persons within the next three months. The most important shortfall is for vegetable oil, of which the WFP has no stock. For 80,000 persons, the WFP would need 207 metric tons of vegetable oil for the next three months. The second most important need is cereals. WFP needs 3000 metric tons for the 80,000 in need. Also needed are 200 metric tons of pulses and 150 metric tones of Corn Soya Blend (CSB). WFP is expecting food from other donors--such as dates from Saudi Arabia and cereals from the European Union (EU), as well as purchases from its own budget in late July 2008.

¶13. (SBU) Of note is the USAID preposition warehouse situated at the Djibouti Free Zone, containing over 25,000 metric tons of food (lentils, CSB, vegetable oil, rice, and flour). The GODJ and WFP are aware of the food stockpile at the preposition warehouse, and have requested 180 metric tons of oil from the warehouse stocks.

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POLITICAL IMPACT: CALM SO FAR, BUT REAL CONCERN

¶14. (SBU) There have not yet been any incidents of civil unrest related to food prices. However, given Djibouti's almost total vulnerability to external price hikes and the GODJ's meager available resources to cushion social impacts, there is a real risk that the population will grow frustrated with the government's inability to improve the situation. Increasing refugee flows from Somalia, as well as a recent border dispute with Eritrea in Djibouti's drought-and-famine stricken north have complicated the GODJ's efforts to adequately respond to the food crisis. With serious food insecurity threatening half of the population, the GODJ has understandably tried to showcase its efforts to tackle the food price problem. State-run media have prominently showcased cabinet discussions on food prices, government efforts to prevent "speculative practices," and charity drives headed up by the First Lady.

IMPACT ON POST PROGRAMS & POLICY PROPOSALS

¶15. (SBU) COMMENT: The Minister of Foreign Affairs has repeatedly

appealed to Post to request significant, immediate USG food aid--both to alleviate widespread human suffering, and to avoid "food riots." His concern underlines the potentially serious consequences of growing food insecurity in Djibouti. USG assistance to Djibouti in the face of this food crisis will cement a strong Djibouti-U.S. partnership, and ensure that food insecurity does not undermine Djibouti's fragile stability and security. Likewise, our failure to respond to Djibouti's real need will leave the GODJ questioning the value of U.S. friendship, and the door open to possible popular unrest. Djibouti needs food aid right now. In the long term, Djibouti also needs substantial investment of time and resources to help implement its national food security strategy and sustainably meet the basic needs of its traditionally nomadic people. END COMMENT.

SYMINGTON